

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)			
Street Address		City	State
			ZIP Code
Accountant Signature <i>Abraham & Jeffrey, P.C.</i> <i>Alan M. Stevens</i>			Date

**Sanilac County Road Commission
Sandusky, Michigan**

FINANCIAL STATEMENTS

December 31, 2004

Sanilac County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the accompanying component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission, a component unit of Sanilac County, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Sanilac County Road Commission as of December 31, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2005, on our consideration of the Sanilac County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the component unit financial statements that collectively comprise the Sanilac County Road Commission's basic financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the component unit basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 16, 2005

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2004

Our discussion and analysis of Sanilac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local, and county roads. The basic financial statements include two kinds of statements that present different views of the Sanilac County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Sanilac County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities – this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Sanilac County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only two funds, the general operations fund and the pension fund. All of the Sanilac County Road Commission's operating activities are accounted for in the general operations fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 19 and 20. The other supplementary information begins on page 21 and provides detailed information about the major fund.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2004

Fund Financial Statements - continued

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Sanilac County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$39,279,618 (as restated) to \$42,565,896, for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets increased by \$3,286,278 during 2004. The construction and paving of seven miles of primary road, the replacement of three major bridges and the purchase of road equipment accounted for part of the increase as these items are capitalized and expensed over their useful lives, as opposed to being expensed in the year that the roads were constructed or the equipment was placed in service.

Net assets for the year ended December 31, 2004 follows:

	<u>2003</u>	<u>2004</u>
Current Assets	\$ 2,553,434	\$ 3,180,613
Capital Assets	<u>6,263,963</u>	<u>41,526,197</u>
TOTAL ASSETS	8,817,397	44,706,810
Current Liabilities	1,093,466	1,015,237
Noncurrent Liabilities	<u>1,674,733</u>	<u>1,125,677</u>
TOTAL LIABILITIES	2,768,199	2,140,914
Net Assets Invested in Capital Assets (Net of Related Debt)	5,252,633	40,580,771
Restricted for County Roads	<u>796,565</u>	<u>1,985,125</u>
TOTAL NET ASSETS	<u>\$ 6,049,198</u>	<u>\$42,565,896</u>

Changes in Net Assets

This is the second year of Governmental Accounting Standards Board Statement No. 34, which requires this financial reporting model. The following table presents comparison between 2003 and 2004 year data.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2004

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Program Revenues		
Charges for services	\$ 1,492,358	\$ 1,527,083
Operating grants & contributions	6,889,871	7,555,874
Capital grants & contributions	2,160,318	1,789,835
General Revenues		
Property taxes	1,629,192	1,688,510
Interest	27,134	36,708
Miscellaneous	2,570	3,558
Gain (loss) on equipment disposal	<u>(139,170)</u>	<u>14,919</u>
TOTAL REVENUES	<u>12,062,273</u>	<u>12,616,487</u>
Expenses		
Primary Roads	3,333,817	1,549,730
Local Roads	4,737,183	3,960,168
State Trunkline	1,456,418	1,425,695
Equipment – net	(42,051)	(287,391)
Administrative – net	429,725	240,126
Infrastructure depreciation	142,813	2,389,837
Interest expense	58,347	42,262
Other	<u>825</u>	<u>9,762</u>
TOTAL EXPENSES	<u>10,117,077</u>	<u>9,330,209</u>
INCREASE IN NET ASSETS	<u>\$ 1,945,196</u>	<u>\$ 3,286,278</u>

The Sanilac County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2004, the fund balance of the general operating fund increased \$838,122 as compared to an increase of \$697,342 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$12,469,597, an increase of \$407,324 as compared to last year. Total expenditures were \$11,991,482, an increase of \$626,551 as compared to last year.

A summary of changes in the Operating Fund for the year ended December 31, 2004 follows:

	<u>Operating Fund</u>	
	<u>2003</u>	<u>2004</u>
Revenues		
Taxes	\$ 1,629,192	\$ 1,688,510
Licenses & Permits	28,945	28,350
Federal Grants	1,727,334	1,293,393
State Grants	5,515,140	6,295,849
Contributions from local units	1,807,715	1,756,467
Charges for services	1,463,413	1,498,733
Interest & Rents	27,134	36,708
Other	2,570	(128,413)
Gain (loss) on equipment disposals	<u>(139,170)</u>	<u>-</u>
TOTAL REVENUES	<u>12,062,273</u>	<u>12,469,597</u>

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2004

	<u>2003</u>	<u>2004</u>
Expenditures		
Primary Road	\$ 5,494,134	\$ 4,371,098
Local Road	4,737,362	6,193,731
State Trunkline	1,456,418	1,475,714
Equipment – net	(42,051)	(232,012)
Administrative – net	429,725	279,883
Capital outlay	(959,975)	(344,075)
Debt service	249,318	237,361
Other	<u>-</u>	<u>9,782</u>
TOTAL EXPENDITURES	<u>11,364,931</u>	<u>11,991,482</u>
EXCESS OF REVENUES OVER EXPENDITURES	697,342	478,115
Other Financing Sources		
Lease proceeds	<u>-</u>	<u>360,007</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	697,342	838,122
FUND BALANCE – BEGINNING	721,366	1,830,707
PRIOR PERIOD ADJUSTMENTS	<u>411,999</u>	<u>-</u>
FUND BALANCE – ENDING	<u>\$ 1,830,706</u>	<u>\$ 2,668,829</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$1,247,640 higher than the original budget primarily due to the Road Commission receiving certain state aid projects during the year as originally planned. There was also an increase in Township contributions. The actual revenue recognized during 2004 was less than the final amended budget by \$296,396. There were ten (10) immaterial unfavorable variances in all of the revenue line items.

The final amended expenditures budget for 2004 was \$1,247,640 higher than the original budget primarily due to the Road Commission completing more Township projects than originally planned. The actual expenditures recognized during 2004 were lower than the final amended budget by \$1,134,518. There were unfavorable variances in certain expenditure line items.

Sanilac County Road Commission
MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2004

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2004, the Road Commission had invested \$41,526,197 in net capital assets. This amount represents a net increase (including additions and deductions) of \$2,031,764 and a restatement of beginning capital assets of \$33,230,470 as follows:

	<u>2003</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land & Improvements	\$ 66,903	\$ 66,903
Construction in progress	<u>-</u>	<u>82,375</u>
SUBTOTAL	66,903	149,278
Capital Assets Being Depreciated		
Buildings	429,111	429,111
Equipment	7,346,773	7,270,848
Depletable assets	55,450	55,450
Infrastructure (as restated)	<u>54,972,061</u>	<u>58,997,237</u>
SUB-TOTAL	<u>62,803,395</u>	<u>66,752,646</u>
TOTAL CAPITAL ASSETS	62,870,298	66,901,924
TOTAL ACCUMULATED DEPRECIATION	(<u>23,375,865</u>)	(<u>25,375,727</u>)
TOTAL NET CAPITAL ASSETS	<u>\$39,494,433</u>	<u>\$41,526,197</u>

This year's major capital asset additions included the following:

Equipment	
Roads	\$ 480,432
Shop	8,569
Office	801
Engineer	3,054
Infrastructure	
Roads	3,314,489
Bridges	<u>1,535,682</u>
TOTAL	<u>\$ 5,343,027</u>

During September 2004, the Road Commission entered into 2 lease purchase agreements for motor graders for 48 months each with interest rates at 3.98% and 4.04%.

During 2004, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineering) with a purchase amount of \$568,781, related accumulated depreciation of \$350,386, and net book value of \$218,395.

Sanilac County Road Commission

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2004

Debt

As of December 31, 2004, the Road Commission had \$1,626,050 in long-term debt outstanding versus \$2,041,800 last year, a decrease of 20% as shown below:

	<u>12/31/03 Balance</u>	<u>2004 Additions</u>	<u>2004 Payments</u>	<u>12/31/04 Balance</u>
Lease Purchase Agreements	<u>\$ 1,011,330</u>	<u>\$ 360,007</u>	<u>\$ 425,911</u>	<u>\$ 945,426</u>

Other obligations include accrued vacation pay and sick leave. As of December 31, 2004, the Road Commission has a \$680,624 outstanding debt related to accumulated unused vacation pay and sick leave. As of September 30, 2003, individual employees no longer have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date is being paid out to individual employees over a five year period. The first of the five payments to individual employees were made during 2004 and accumulated vacation and sick leave obligations were reduced by \$349,846. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considers many factors when setting the fiscal year 2005 budget. The Road Commission derives approximately 46% of its revenues from the fuel tax collected. Using MDOT projections, it is estimated the Sanilac County Road Commission will receive \$5,683,400 or about \$116,000 less in MTF revenues in 2005. The Road Commission received \$1.7 million in township contributions in 2004 and we expect to do about the same amount of local road work in 2005. During 2005 we will be completing four major road projects and four critical bridge projects that will increase our Federal and State revenues.

The above items were considered when adopting the budget for 2005. Amounts available for appropriation in the 2005 budget are \$12,300,000, which is close to the same amount expended in 2004.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Sanilac County Road Commission's administrative offices at 35 N. Flynn Street, Sandusky, Michigan 48471.

BASIC FINANCIAL STATEMENTS

Sanilac County Road Commission

STATEMENT OF NET ASSETS

December 31, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,612,108
Accounts receivable	13,362
Due from other governmental units	
State	1,047,910
Local	177,454
Prepaid expenses	55,413
Inventory	<u>274,366</u>
Total current assets	3,180,613
Noncurrent assets	
Capital assets, net	<u>41,526,197</u>
TOTAL ASSETS	44,706,810
LIABILITIES	
Current liabilities	
Accounts payable	101,045
Accrued liabilities	57,591
Accrued interest payable	3,080
Due to other governmental units	
State	27
Performance bond payable	5,000
Deferred revenue	82,667
Current portion of compensated absences	317,137
Current portion of long-term debt	<u>448,690</u>
Total current liabilities	1,015,237
Noncurrent liabilities	
Advances	265,454
Noncurrent portion of compensated absences	363,487
Noncurrent portion of long-term debt	<u>496,736</u>
Total noncurrent liabilities	<u>1,125,677</u>
TOTAL LIABILITIES	<u>2,140,914</u>
NET ASSETS	
Invested in capital assets, net of related debt	40,580,771
Restricted for County Roads	<u>1,985,125</u>
TOTAL NET ASSETS	<u><u>\$ 42,565,896</u></u>

See accompanying notes to financial statements

Sanilac County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

	Governmental Activities
Program Expenses	
Primary Road	\$ 1,549,730
Local Road	3,960,168
State Trunkline	1,425,695
Equipment - net	(287,391)
Administrative - net	240,126
Infrastructure depreciation	2,389,837
Interest expense	42,262
Other	9,782
	<hr/>
TOTAL PROGRAM EXPENSES	9,330,209
Program Revenues	
Charges for services	1,527,083
Operating grants and contributions	7,555,874
Capital grants and contributions	1,789,835
	<hr/>
TOTAL PROGRAM REVENUES	10,872,792
NET PROGRAM REVENUES	1,542,583
General Revenues	
Property taxes	1,688,510
Interest	36,708
Miscellaneous	3,558
Gain on equipment disposals	14,919
	<hr/>
TOTAL GENERAL REVENUES	1,743,695
CHANGE IN NET ASSETS	3,286,278
Net assets, beginning of the year	6,049,148
Prior period adjustment	33,230,470
	<hr/>
Net assets, end of the year	<u>\$ 42,565,896</u>

See accompanying notes to financial statements

Sanilac County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2004

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,612,108
Accounts receivable	13,362
Due from other governmental units	
State of Michigan	1,047,910
Local	177,454
Prepaid expenditures	55,413
Inventory	<u>274,366</u>
TOTAL ASSETS	<u>\$ 3,180,613</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 101,045
Accrued liabilities	57,591
Due to other governmental unit	
State of Michigan	27
Performance bond payable	5,000
Deferred revenue	82,667
Advances	
State of Michigan	224,121
Local	<u>41,333</u>
TOTAL LIABILITIES	511,784
FUND EQUITY	
Fund balance	
Reserved for primary road	1,921,944
Reserved for local road	241,123
Unreserved - undesignated	<u>505,762</u>
TOTAL FUND EQUITY	<u>2,668,829</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,180,613</u>

See accompanying notes to financial statements

Sanilac County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2004

Total fund balance - governmental fund \$ 2,668,829

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 66,901,924	
Accumulated depreciation is	<u>(25,375,727)</u>	
Capital assets, net		41,526,197

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Fund Balance Sheet.

Long-term liabilities at year-end consist of:

Lease payable	(945,426)	
Accrued interest payable	(3,080)	
Compensated absences	<u>(680,624)</u>	
		<u>(1,629,130)</u>

Net assets of governmental activities \$ 42,565,896

See accompanying notes to financial statements.

Sanilac County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2004

	Governmental Fund Type
	<u>General Operating Fund</u>
REVENUES	
Taxes	\$ 1,688,510
Licenses and permits	28,350
Intergovernmental	9,345,709
Charges for services	1,498,733
Interest and rents	36,708
Other	<u>(128,413)</u>
TOTAL REVENUES	12,469,597
EXPENDITURES	
Current	
Primary Road	4,371,098
Local Road	6,193,731
State Trunkline	1,475,714
Equipment - net	(232,012)
Administrative - net	279,883
Capital outlay	(344,075)
Debt Service	237,361
Other	<u>9,782</u>
TOTAL EXPENDITURES	<u>11,991,482</u>
EXCESS OF REVENUES OVER EXPENDITURES	478,115
OTHER FINANCING SOURCES	
Lease proceeds	<u>360,007</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	838,122
Fund balance, beginning of year	<u>1,830,707</u>
Fund balance, end of year	<u><u>\$ 2,668,829</u></u>

See accompanying notes to financial statements.

Sanilac County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balance - governmental fund **\$ 838,122**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 5,425,402	
Depreciation expense	(785,406)	
Infrastructure depreciation	<u>(2,389,837)</u>	
Excess of capital outlay over depreciation expense		2,250,159

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. 13,059

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Lease proceeds	(360,007)	
Capital lease payments	<u>194,507</u>	(165,500)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

Decrease in accrued interest payable	592	
Decrease in accrued compensated absences	<u>349,846</u>	<u>350,438</u>

Change in net assets of governmental activities **\$ 3,286,278**

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2004

	<u>Pension Fund</u>
ASSETS	
Cash equivalents	\$ 12,830
Investments	<u>3,414,506</u>
TOTAL ASSETS	<u>\$ 3,427,336</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 3,427,336</u>

See accompanying notes to financial statements.

Sanilac County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2004

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 206,374
Investment earnings	
Net increase in fair value of investments	346,703
Dividends	<u>66,116</u>
Total investment earnings	<u>412,819</u>
TOTAL ADDITIONS	619,193
DEDUCTIONS	
Benefits	<u>(760,047)</u>
CHANGE IN NET ASSETS	(140,854)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>3,568,190</u>
End of year	<u><u>\$ 3,427,336</u></u>

See accompanying notes to financial statements.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sanilac County Road Commission (the "Commission") is a component unit of Sanilac County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to twenty-six (26) Townships in Sanilac County and maintains over 1,800 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Sanilac County Road Commission. The Commission is considered a component unit of Sanilac County, Michigan and is discretely presented in Sanilac County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Sandusky, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

4. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

5. Cash and Cash Equivalents

Cash and cash equivalents consists of the Commission's checking, money market account, and imprest cash.

6. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

7. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets, (e.g., roads, bridges and similar items) are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Sanilac County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

7. Capital Assets - continued

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Sanilac County Road Commission recorded a prior period adjustment to reflect the net book value of those infrastructure assets during the fiscal year ended December 31, 2004.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

9. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

10. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

11. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Sanilac County Treasurer's Office, and in order to make disbursements, the Sanilac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

The Commission's bank deposits at December 31, 2004, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 703,472	\$ 1,081,649
Certificates of Deposit	<u>700,000</u>	<u>700,000</u>
	<u>\$ 1,403,472</u>	<u>\$ 1,781,649</u>

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2004, the Commission's accounts were insured by the FDIC for \$310,787 and the amount of \$1,470,862 was uninsured and uncollateralized.

The cash caption on the balance sheet includes \$1,550 in imprest cash.

Investments

As of December 31, 2004, the carrying amount and market values for the investment funds are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Uncategorized pooled investment funds:		
Bank One Commercial Checking Sweep	\$ 207,086	\$ 207,086
American Funds Retirement - Fiduciary Fund	<u>3,427,336</u>	<u>3,427,336</u>
	<u>\$ 3,634,422</u>	<u>\$ 3,634,422</u>

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2004 was as follows:

	<u>Restated Balance Jan. 1, 2004</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2004</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	<u>-</u>	<u>82,375</u>	<u>-</u>	<u>82,375</u>
Subtotal	66,903	82,375	-0-	149,278
Capital Assets Being Depreciated/Depleted				
Buildings	429,111	-	-	429,111
Equipment -				
Road	7,091,023	480,432	555,653	7,015,802
Shop	109,499	8,569	1,291	116,777
Office	71,114	801	5,690	66,225
Engineer	75,137	3,054	6,147	72,044
Infrastructure - roads	39,504,205	3,314,489	824,995	41,993,699
Infrastructure - bridges	15,467,856	1,535,682	-	17,003,538
Depletable assets	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	62,803,395	5,343,027	1,393,776	66,752,646

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance <u>Jan. 1, 2004</u>	Additions and Reclassifications	<u>Deletions</u>	Balance <u>Dec. 31, 2004</u>
Less Accumulated Depreciation/Depletion				
Buildings	\$ 347,841	\$ 8,919	\$ -	\$ 356,760
Equipment -				
Road	5,278,889	765,098	337,604	5,706,383
Shop	62,841	7,344	945	69,240
Office	24,245	2,355	5,690	20,910
Engineer	69,109	1,690	6,147	64,652
Infrastructure - roads	12,787,038	2,069,383	824,995	14,031,426
Infrastructure - bridges	4,750,452	320,454	-	5,070,906
Depletion	<u>55,450</u>	<u>-</u>	<u>-</u>	<u>55,450</u>
Subtotal	<u>23,375,865</u>	<u>3,175,243</u>	<u>1,175,381</u>	<u>25,375,727</u>
Net Capital Assets Being Depreciated	<u>39,427,530</u>	<u>2,167,784</u>	<u>218,395</u>	<u>41,376,919</u>
Total Net Capital Assets	<u>\$39,494,433</u>	<u>\$ 2,250,159</u>	<u>\$ 218,395</u>	<u>\$41,526,197</u>

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 765,098
Net Administrative Expense	20,308
Infrastructure	<u>2,389,837</u>
	<u>\$ 3,175,243</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2004:

	Balance <u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2004</u>	Amounts Due Within <u>One Year</u>
Governmental Activities					
Lease purchase agreements	\$ 1,011,330	\$ 360,007	\$ 425,911	\$ 945,426	\$ 454,425
Vacation and sick leave	<u>1,030,470</u>	<u>-</u>	<u>349,846</u>	<u>680,624</u>	<u>317,137</u>
	<u>\$ 2,041,800</u>	<u>\$ 360,007</u>	<u>\$ 775,757</u>	<u>\$ 1,626,050</u>	<u>\$ 771,562</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Sanilac County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE D: LONG-TERM DEBT - CONTINUED

Lease purchase agreements, payable at December 31, 2004, are as follows:

The Commission purchased a Komatsu Hoe under a lease purchase agreement at a cost of \$131,500. The lease purchase agreement requires sixty consecutive monthly payments of \$1,539, which includes lease finance costs at the rate of 4.75% commencing on June 1, 2001. At the end of the lease term, the Road Commission may purchase the Hoe for \$1.	\$ 23,888
The Commission refinanced one Caterpillar Tool Carrier under a purchase agreement at a remaining cost of \$48,750. The purchase agreement requires thirty-six consecutive monthly payments of \$1,488.60, which includes finance costs at the rate of 6.25% commencing on January 5, 2003.	17,400
The Commission purchased four Graders under lease purchase agreements at a total cost of \$702,650. The lease purchase agreement requires thirty-six consecutive monthly payments of \$8,750, which includes lease finance costs at rates of 3.5% to 4.3% commencing in 2002. At the end of the lease terms, the Road Commission may purchase the Graders for \$413,708.	515,895
The Commission purchased two Caterpillar Motor Graders, a Caterpillar Tool Carrier, and a Caterpillar Excavator under lease purchase agreements at a cost of \$530,187. The lease purchase agreements require thirty-six consecutive monthly payments of \$7,500, which includes lease finance costs at rates of 5.45% to 6.05% commencing in 2000. At the end of the term, the Road Commission may purchase the equipment for \$335,688.	42,850
The Commission purchased a Caterpillar Motor Grader under lease purchase agreement at a cost of \$193,082. The lease purchase agreement requires forty-eight consecutive monthly payments of \$2,530, which includes lease finance costs at a rate of 3.93817% commencing on September 20, 2004. At the end of the term, the Road Commission may purchase the Grader for \$93,932.	185,652
The Commission purchased a Caterpillar Motor Grader under a lease purchase agreement at a cost of \$167,715. The lease purchase agreement requires forty-eight consecutive monthly payments of \$2,110, which includes lease finance costs at the rate of 4.04% commencing on September 10, 2004. At the end of the lease term, the Road Commission may purchase the Grader for \$86,708.	<u>159,741</u>
	<u>\$ 945,426</u>

Accumulated Vacation and Sick

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. As of September 30, 2003, individual employees do not have vested rights upon termination of employment to receive payment for unused sick leave, however balances that had accumulated up to that date will be paid out to individual employees over a five year period.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$317,137 and a long-term liability of \$363,487 at December 31, 2004.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay general long-term debt principal and interest outstanding for the following installment contracts at December 31, 2004, are as follows:

Year Ending December 31,	<u>Lease purchase agreements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 454,425	\$ 30,909	\$ 485,334
2006	232,679	11,705	244,384
2007	46,203	9,477	55,680
2008	<u>212,119</u>	<u>5,891</u>	<u>218,010</u>
	<u>\$ 945,426</u>	<u>\$ 57,982</u>	<u>\$ 1,003,408</u>

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2004, the Road Commission of Sanilac County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Road Commission has a master single employer defined contribution plan called The Sanilac County Money Purchase Plan. This defined contribution plan is administered by Pension Plan Service, Inc. and is available to all employees of the Road Commission. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who are at least 21 years old and have completed six months of service are eligible to participate.

Plan provisions require that the Road Commission contribute 8 percent of each active participant's compensation and do not allow for participant contributions. The Road Commission's contributions for each employee (and earnings allocated to the employee's account) are vested at the rate of 20 percent upon completing 2 years of service, plus an additional 20 percent for each year of the next 4 years of service. Road Commission contributions for and interest forfeited by employees who leave employment before full vesting are used to reduce the Road Commission's current period contribution requirement. The plan uses the accrual basis of accounting with investments stated at market.

The Road Commission's total payroll for the year ended December 31, 2004, was \$2,616,157. The Road Commission's contributions were calculated using the covered compensation amount of \$2,579,675. The Road Commission made the required contribution amounting to \$206,374.

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

NOTE H: RISK MANAGEMENT

Sanilac County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

Sanilac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. The Road Commission's employee medical benefits insurance is purchased through Blue Cross and Blue Shield.

At December 31, 2004, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Sanilac County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Sanilac County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
State Trunkline	\$ 1,362,010	\$ 1,475,714	\$ 113,704
Administrative	184,000	279,883	95,883
Capital Outlay	521,500	344,075	177,425
Other	-	9,782	9,782

Sanilac County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2004:

General Operating Fund	
Reserved for	
Primary Road	\$ 1,921,944
Local Road	<u>241,123</u>
	<u>\$ 2,163,067</u>

NOTE K: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustment was made during the current period, which was the result of restatement of infrastructure assets. This adjustment was reported as a change to beginning net assets. The effect on operations and other affected balances for the current year and prior period are as follows:

	December 31,		Description
	<u>2004</u>	<u>2003</u>	
Governmental Activities			
Capital assets, net	\$ -	\$33,230,470	Correct understated
Net Assets - beginning	33,230,470	-	capital assets, net

NOTE L: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Sanilac County Road Commission provides hospitalization medical coverage on a complimentary basis for any employee who retires after January 1, 1990, at age 55 with at least thirty years of service. At age 65, the employee receives supplemental coverage for himself or herself only.

For any employee who retires after age 62 and after January 1, 1990, Sanilac County Road Commission provides the retiree and his or her spouse with hospitalization medical coverage, provided however, that if the retiree's spouse, by virtue of his or her employment or otherwise, has the retiree as a covered beneficiary on his or her hospitalization medical coverage, the Road Commission will be under no obligation to provide coverage. At age 65 the retiree and or spouse coverage will be supplemental only.

The benefits are provided based on requirements of union contracts and are financed on a pay-as-you-go basis. For the year ended December 31, 2004, Sanilac County Road Commission expended \$241,559 for 33 participants currently eligible to receive benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 1,670,000	\$ 1,670,000	\$ 1,688,510	\$ 18,510
Licenses and permits				
Permits	28,500	29,500	28,350	(1,150)
Intergovernmental				
Federal sources				
Critical Bridge	1,282,500	932,500	976,945	44,445
Economic development "D" funds	-	-	188,881	188,881
Surface transportation program	480,000	480,000	127,567	(352,433)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	2,670,600	2,620,600	2,883,368	262,768
Local road	2,854,500	2,811,430	2,906,039	94,609
Critical Bridge	-	200,000	183,178	(16,822)
Economic development funds				
Rural primary "D" funds	-	303,500	313,264	9,764
Local sources				
City and village contributions	10,000	15,000	9,939	(5,061)
Township contributions	1,720,250	2,190,250	1,746,528	(443,722)
Total intergovernmental	9,027,850	9,563,280	9,345,709	(217,571)
Charges for services				
State Trunkline maintenance				
Direct charges	813,510	893,510	865,516	(27,994)
Indirect charges	100,000	548,500	621,911	73,411
Material sales	-	11,505	7,739	(3,766)
Salvage sales	8,000	8,000	3,567	(4,433)
Total charges for services	921,510	1,461,515	1,498,733	37,218
Interest	25,000	32,200	36,708	4,508
Other				
Other	5,500	9,500	3,558	(5,942)
Loss on equipment disposal	-	-	(131,971)	(131,971)
Total other	5,500	9,500	(128,413)	(137,913)
TOTAL REVENUES	11,678,360	12,765,995	12,469,597	(296,398)
OTHER FINANCING SOURCES				
Lease proceeds	200,000	360,005	360,007	2
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 11,878,360</u>	<u>\$ 13,126,000</u>	<u>\$ 12,829,604</u>	<u>\$ (296,398)</u>

Sanilac County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Maintenance	\$ 751,500	\$ 1,485,600	\$ 1,622,972	\$ (137,372)
Heavy maintenance	2,270,000	2,970,000	2,745,839	224,161
Structure maintenance	10,000	2,425	2,287	138
Total Primary Road	3,031,500	4,458,025	4,371,098	86,927
Local Road				
Maintenance	2,316,350	4,081,350	4,089,441	(8,091)
Heavy maintenance	650,000	500,000	468,443	31,557
Structure maintenance	1,355,000	1,642,000	1,635,847	6,153
Total Local Road	4,321,350	6,223,350	6,193,731	29,619
State Trunkline				
Maintenance	913,510	1,362,010	1,475,714	(113,704)
Equipment				
Direct	1,050,000	800,000	1,552,418	(752,418)
Indirect	2,250,000	107,115	642,083	(534,968)
Operating	275,000	275,000	325,077	(50,077)
Less: Equipment rental	-	-	(2,751,590)	2,751,590
Total Equipment	3,575,000	1,182,115	(232,012)	1,414,127
Administrative				
Administration	350,000	300,000	405,470	(105,470)
Less:				
Handling charges	(10,000)	(10,000)	(2,074)	(7,926)
Overhead state	(75,000)	(106,000)	(121,964)	15,964
Purchase discount	-	-	(1,549)	1,549
Total Administrative	265,000	184,000	279,883	(95,883)
Capital Outlay				
Capital outlay	285,000	236,500	575,162	(338,662)
Less:				
Depreciation and depletion	(750,000)	(750,000)	(785,406)	35,406
Equipment retirements	(3,000)	(8,000)	(133,831)	125,831
Total Capital Outlay	(468,000)	(521,500)	(344,075)	(177,425)
Debt Service				
Principal payments	200,000	200,000	194,507	5,493
Interest payments	40,000	38,000	42,854	(4,854)
Total Debt Service	240,000	238,000	237,361	639
Other				
Other	-	-	9,782	(9,782)
TOTAL EXPENDITURES	\$ 11,878,360	\$ 13,126,000	\$ 11,991,482	\$ 1,134,518

OTHER SUPPLEMENTARY INFORMATION

Sanilac County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2004

TOTAL REVENUES	\$ 12,469,597
TOTAL EXPENDITURES	<u>11,991,482</u>
EXCESS OF REVENUES OVER EXPENDITURES	478,115
OTHER FINANCING SOURCES	<u>360,007</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	838,122
Fund balance, beginning of year	<u>1,830,707</u>
Fund balance, end of year	<u><u>\$ 2,668,829</u></u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 5,164,792	\$ 5,824,144	\$ 1,480,661	\$ 12,469,597
TOTAL EXPENDITURES	<u>4,317,818</u>	<u>6,245,640</u>	<u>1,428,024</u>	<u>11,991,482</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	846,974	(421,496)	52,637	478,115
OTHER FINANCING SOURCES				
Lease proceeds	<u>-</u>	<u>360,007</u>	<u>-</u>	<u>360,007</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	846,974	(61,489)	52,637	838,122
Fund balance, beginning of year	<u>1,074,970</u>	<u>302,612</u>	<u>453,125</u>	<u>1,830,707</u>
Fund balance, end of year	<u><u>\$ 1,921,944</u></u>	<u><u>\$ 241,123</u></u>	<u><u>\$ 505,762</u></u>	<u><u>\$ 2,668,829</u></u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Taxes	\$ 1,688,510	\$ -	\$ -	\$ 1,688,510
Licenses and permits				
Permits	-	-	28,350	28,350
Intergovernmental				
Federal sources	316,448	976,945	-	1,293,393
State sources	3,202,033	3,093,816	-	6,295,849
Local sources	-	1,756,467	-	1,756,467
Total intergovernmental	3,518,481	5,827,228	-0-	9,345,709
Charges for services				
State Trunkline				
Direct charges	-	-	1,487,427	1,487,427
Material sales	-	7,739	-	7,739
Salvage sales	-	3,567	-	3,567
Total charges for services	-0-	11,306	1,487,427	1,498,733
Interest	16,460	20,248	-	36,708
Other				
Other	728	2,314	516	3,558
Loss on sale of equipment	(59,387)	(36,952)	(35,632)	(131,971)
Total other	(58,659)	(34,638)	(35,116)	(128,413)
TOTAL REVENUES	5,164,792	5,824,144	1,480,661	12,469,597
OTHER FINANCING SOURCES				
Lease proceeds	-	360,007	-	360,007
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 5,164,792</u>	<u>\$ 6,184,151</u>	<u>\$ 1,480,661</u>	<u>\$ 12,829,604</u>

Sanilac County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Heavy Maintenance	\$ 2,745,839	\$ 468,443	\$ -	\$ 3,214,282
Structure Maintenance	2,287	1,635,847	-	1,638,134
Maintenance	1,622,972	4,089,441	-	5,712,413
State Trunkline	-	-	1,475,714	1,475,714
Equipment Expense - Net	(54,221)	(145,541)	(32,250)	(232,012)
Administrative Expense - Net	115,799	164,084	-	279,883
Capital Outlay - Net	(289,926)	(37,349)	(16,800)	(344,075)
Debt Service	165,286	70,715	1,360	237,361
Other	9,782	-	-	9,782
	<u>\$ 4,317,818</u>	<u>\$ 6,245,640</u>	<u>\$ 1,428,024</u>	<u>\$ 11,991,482</u>
TOTAL EXPENDITURES				

Sanilac County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2004

	Restated Balance Jan. 1, 2004	Additions and Reclassifications	Deletions	Balance Dec. 31, 2004
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 66,903	\$ -	\$ -	\$ 66,903
Construction in progress	-	82,375	-	82,375
Subtotal	66,903	82,375	-0-	149,278
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	429,111	-	-	429,111
Equipment				
Road	7,091,023	480,432	555,653	7,015,802
Shop	109,499	8,569	1,291	116,777
Office	71,114	801	5,690	66,225
Engineer	75,137	3,054	6,147	72,044
Infrastructure - Roads	39,504,205	3,314,489	824,995	41,993,699
Infrastructure - Bridges	15,467,856	1,535,682	-	17,003,538
Depletable assets	55,450	-	-	55,450
Subtotal	62,803,395	5,343,027	1,393,776	66,752,646
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	347,841	8,919	-	356,760
Equipment				
Road	5,278,889	765,098	337,604	5,706,383
Shop	62,841	7,344	945	69,240
Office	24,245	2,355	5,690	20,910
Engineer	69,109	1,690	6,147	64,652
Infrastructure - Roads	12,787,038	2,069,383	824,995	14,031,426
Infrastructure - Bridges	4,750,452	320,454	-	5,070,906
Depletion	55,450	-	-	55,450
Subtotal	23,375,865	3,175,243	1,175,381	25,375,727
Net Capital Assets Being Depreciated	39,427,530	2,167,784	218,395	41,376,919
Total Net Capital Assets	<u>\$ 39,494,433</u>	<u>\$ 2,250,159</u>	<u>\$ 218,395</u>	<u>\$ 41,526,197</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
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and
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Sanilac County
Sandusky, Michigan

We have audited the component unit financial statements of the Sanilac County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon dated February 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sanilac County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sanilac County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioner's and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 16, 2005

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MANAGEMENT LETTER

Board of the County Road Commissioners
Sanilac County
Sandusky, Michigan

Dear Commissioners:

As you know, we have recently completed our audit of the records of the Sanilac County Road Commission for the year ended December 31, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Commission should implement various written procedures and policies.

During discussions with management, we noted that the Commission has not formally implemented written procedures and policies for several areas of operation. This issue was noted and reported in our audit comments last year. Specifically, we suggest the Commission formally develop and implement written procedures and policies for the following:

- a. Personnel policies - We suggest the Commission consider mandatory vacations and the rotation of duties for employees responsible for accounting functions. We also suggest that employees are periodically evaluations. The Commission should also adopt a conflict of interest policy either as part of the personnel policies or as a separate policy.

We believe by documenting specific personnel policies, employees of the Commission will have a clearer understanding of the Board's expectations. We also believe that such documentation will provide greater internal control for certain areas.

- b. Capital assets - We suggest the Board of Commissioners adopt a policy for disposal of capital assets. The policy should specify criteria for disposing of capital assets. We also suggest that the Board of Commissioners adopt a policy prohibiting the personal use of government assets. We believe that such a policy would provide a greater internal control over the use of capital assets.

2. Budgets should be monitored and amended prior to expenditure of funds when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Road Commission exceeded the amounts appropriated. This issue was noted and reported in our audit comments last year.

The Michigan Public Act 621 of 1978, as amended, provides that the Road Commission adopt formal budgets for applicable Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We suggest the Road Commission monitor expenditures against the adopted budget on a periodic basis, preferable monthly.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements dated February 16, 2005.

This report is intended solely for the use of management and the Board of County Road Commissioners of Sanilac County and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 16, 2005